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C O N F I D E N T I A L SECTION 01 OF 03 VIENTIANE 000112

SIPDIS

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TAGS: [CN](#) [ECON](#) [ETRD](#) [LA](#) [PREL](#) [EINV](#)  
SUBJECT: CHINA'S DOMINANT INVESTMENT PRESENCE IN NORTHERN  
LAOS

REF: A. 08 VIENTIANE 444  
[1](#)B. 08 VIENTIANE 202  
[1](#)C. 07 VIENTIANE 288  
[1](#)D. 08 VIENTIANE 226  
[1](#)E. VIENTIANE 88

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Classified By: Ambassador Ravic Huso for reasons 1.4 (b) and (d)

[1](#)1. (C) Summary: Chinese investment, and often demographic presence, in the northern Lao provinces of Oudomxay, Luang Namtha, and Bokeo dominates visitors' impressions and still appears to be growing rapidly. While many local government officials are clearly sensitive to the appearance of being overwhelmed by the large Chinese presence, they are also pleased with the investment and want to see more. According to Government of Laos (GOL) statistics, in 2007-2008 China provided all foreign direct investment (FDI) in Luang Namtha, seventy-five percent in Oudomxay, and over fifty percent in Bokeo. The Chinese concession on the Lao side of the Luang Namtha-China border at Boten is a small extra slice of China, centered on a smoky and somewhat seedy casino offering only table games. Agricultural plantation investments, primarily rubber, are the majority of larger investments, although there is also a huge new casino under construction in Bokeo as well as many smaller Chinese businesses selling hardware, dry goods, and filling a variety of retail niches. As GOL statistics themselves are notoriously inaccurate, and provinces are highly autonomous, it is likely that the Lao themselves do not fully grasp the extent of Chinese investment and the numbers of Chinese moving into the country. End Summary.

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Oudomxay-The Crossroads between Vietnam, China, & Thailand?  
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[1](#)2. (C) Econoff and visiting EAP/MLS desk officer visited three northern Lao provinces January 22-26 on a familiarization tour. The Chinese presence dominated impressions. The Vice-Governor of Oudomxay province, Mr. Bounpone Vannachith, told us that China provided most of the province's FDI, with Vietnam a distant second. According to the provincial department for planning and investment (DPI) office, in 2007-2008 Chinese investment was \$4,417,425, seventy-five percent of the province's \$5,919,425 in registered FDI. Mr. Bounpone said that the majority of

provincial FDI flows to rubber plantations and contract farming, although the provincial government has also granted permission for companies to search for minerals - particularly copper, iron, coal, and bauxite. Additional Chinese investments include a motorcycle assembly factory, a battery factory, and a new cement plant, which according to Mr. Bounpone will produce 200,000 tons of cement in 2009. The head of the provincial DPI office, Mr. Houmpheng Southivong, told us that few of the people who approach the government with plans for investments actually follow through, and he expects the current economic crisis to slow actual investment even more. Mr. Houmpheng was especially interested in the Pak Bang hydropower project on the Mekong (ref A). This is a 1320 megawatt run of the river dam currently in the feasibility study phase with the Hong-Kong based power company Datang International. Mr. Houmpheng stated that the dam, once completed, would generate \$3 million a day for the province. (Note: We are skeptical that the dam would generate royalties this high for the province. End note.)

13. (C) Both the Vice-Governor and the head of DPI stated that Oudomxay is considered by the GOL as a transit point for goods coming from China and Vietnam. Mr. Bounpone said that the Chinese government is paying to improve Route 13 north, Laos' main north-south artery which quickly deteriorates as one heads north from Oudomxay city, while the Vietnamese are building a new highway from Dieng Bien Phu in Vietnam, via Phongsali, Oudomxay, and Sayabouly provinces in Laos, to Thailand. Both officials were reluctant to address the issue of China's growing demographic presence, perhaps aware of rumors which place the Chinese at about 25% of Oudomxay city's population. Mr. Houmpheng told us that Chinese investors were allowed to fill only 10% of the positions with

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foreign workers, while the rest needed to be Lao. While this statement tracks Lao law, it does not appear to reflect reality.

14. (C) A Malaysian Chinese investor owns the newest hotel in town, as well as the Yarnsin Furniture and Tea Factory. On January 23rd the factory was almost completely empty of workers. The Malaysian assistant manager, William Ho, a three-month veteran of Laos, gave us a tour. According to Mr. Ho, the factory, which produces high quality furniture (much of it rosewood) for export to China and Malaysia, normally employs about 50 people. However, about half of the staff, all Vietnamese and Chinese, had gone home for the Lunar New Year. The foreign staff at the factory provide the skilled labor -- Vietnamese shape the wood while the Chinese in general do the detailed carving. Lao staff finish the products: sanding, sealing, and painting are their primary role. The foreign staff also live on the factory grounds in a compound. Chinese companies are notorious for bringing their own workers for projects in Laos, a practice which has on at least one occasion helped spark a backlash against a planned investment in Vientiane (ref B).

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Luang Namtha's Surprising Chinese Neighborhood  
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15. (C) Driving north on Road 13 from Oudomxay, one-third of the cars headed south had Chinese plates. The road, which runs to Luang Namtha and the Chinese "Boten Golden City Project" concession (ref C), is in poor condition. At the heart of the concession is the Jin Loon hotel and casino, aimed at a purely Chinese clientele. Despite a renewed GOL campaign to use the Lao Kip, only Chinese yuan and U.S. dollars are accepted in the casino. English speakers were rare, and embosfs did not see any Lao workers. Although nominally responsible for security within the concession, there was also no Lao police or military presence. The official Lao border crossing has now been moved to a series of small temporary buildings about 1 km inside Laos from the

border with China. Previously, Lao immigration was located after the turnoff to the casino, which allowed patrons from China to visit the casino without passing through Lao immigration or customs formalities. Located across from the hotel is a small outdoor mall of purely Chinese businesses. Large dormitories for the Chinese workers at the casino march up an adjacent hill. The casino itself is an acquired taste -- smoky, scuffed, seedy, and containing only card games, it is surprisingly utilitarian. Only about half of the gaming rooms were open during our visit, and outside of one possible apartment building, the planned development (ref C) appears to be behind schedule. Leaving Boten towards Luang Namtha city the R3 roadway, the opening of which was celebrated at last years Asian Development Bank (ADB) Greater Mekong Subregion (GMS) summit in Vientiane (ref D), is smooth but marked by sections needing to be rebuilt. At one point an entire lane has fallen into a ravine for about 100 meters, while in numerous other locations the road has cracked and subsided (ref E).

16. (C) The town of Luang Namtha itself appears to be undergoing a quiet investment boom. Luang Namtha's provincial DPI provided FDI figures for 2007-2008 showing 14 large investments totaling \$15,537,650, all of which were from China. Eleven of the investments were for rubber plantations. A six story, modern Chinese hotel, the "Hong Chin", has recently opened. Quoting prices in yuan, and surrounded by still unfinished dormitories for its workers, the hotel is staffed and built by Chinese labor. The Chinese presence in Luang Namtha is unmistakable--many of the new businesses in town are emblazoned with Chinese lanterns, and numerous small shops play Chinese TV and contain employees who speak little or no Lao. At least half of the new buildings in town appeared to be Chinese-owned. Many new houses also appear under construction for Chinese investors, based on cars with Chinese license plates and signs for Chinese New Year.

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Rubber and Burmese in Bokeo

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17. (C) Houy Xay, the capital of Bokeo province set on a series of hills above the Mekong River, is some 229 kilometers south of the Chinese border. It does not yet appear to have the same small-scale Chinese commercial presence in the downtown area as the cities of Oudomxay and Luang Namtha. Bokeo province has also seen large influxes of Chinese FDI in recent years, led by an \$86 million casino complex and nine rubber plantations, but this investment was not as visible to emboffs. Over fifty percent of the provincial FDI in 2007-2008 was from China. If it were not for a planned Korean investment, AAC Green City, Chinese money would represent about 95% of the registered foreign investment in Bokeo. A number of local Embassy contacts mentioned the rising number of Chinese agricultural investments and expressed concerns that Chinese firms will begin to import Chinese labor to work the rubber plantations. The Deputy Director of Bokeo's DPI, Ms. Phouangphanh Phumsavanh, was less concerned with a possible influx of Chinese workers. She explained that Bokeo has a shortage of workers, and noted that the new casino, located near the Thailand and Burma borders in the "Golden Triangle", was using many Burmese construction workers.

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COMMENT

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18. (C) The GOL statistics we received showed China to be the dominant provider of FDI in Oudomxay, Luang Namtha, and Bokeo provinces. Because smaller Chinese investments, primarily in retail services, are nominally recorded at the district and village level, it is difficult to gather a complete picture

of Chinese investment and immigration. As GOL statistics are notoriously inaccurate, and provinces are highly autonomous, it is likely that the Lao themselves do not fully grasp the extent of Chinese investment and the numbers of Chinese slowly moving into the country. End Comment.  
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